

INTERNAL REVENUE SERVICE

Department of the Treasury

District
Director

CERTIFIED

Employer Identification Number

Person to Contact:

Telephone Number:

Refer Reply to:

Internal Revenue Service

Date: MAY 20 1993

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under Section 501(c)(7) of the Internal Revenue Code.

The information submitted discloses that you were incorporated on [REDACTED] under the nonprofit laws of the State of [REDACTED].

According to your Articles of Incorporation, your purposes are exclusively for pleasure, recreation and other similar non-profitable purposes within the meaning of Section 501(c)(7) of the Internal Revenue Code.

Your organization provides several sports and physical fitness activities for members. Your membership is limited to [REDACTED] members with one class of membership. Members are not entitled to voting rights. Your initial board of directors is "self-perpetuating" and limited to three individuals. These three board members have complete control over the membership in the club, authority to determine the use of funds and direct all the club business. Membership dues consist of more than 90 percent of your revenue.

Your organization has entered into a lease agreement with [REDACTED] to pay \$[REDACTED] a month for the space that you occupy. Two members of your board of directors, [REDACTED], are officers and shareholders of the parent organization that owns [REDACTED]. [REDACTED] has the right to unilaterally increase the annual rent in the event of an increase in property taxes caused by any tax levy or change in the assessed valuation of the building.

5-18-93

5-18-93

Section 501(c)(7) of the Code provides for exemption from Federal income tax of clubs organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that Section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation and other non-profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments.

An organization whose membership is comprised primarily of social members, which makes its facilities available to the social members upon the payment of stipulated initiation fees and regularly yearly dues and which does not permit the social members to have voting power in the club, is not operated exclusively for one or more of the purposes enumerated in Section 501(c)(7) of the Code. (See Revenue Ruling 58-588, Cumulative Bulletin 1958-2, page 265).

We have concluded that your club is operated in the personal interest of a few individuals; that social features are not a material purpose of the club but are subordinate and merely incidental to the active furtherance of a predominant purpose to engage in the business of selling services for profit to a limited number of individuals. In addition, the financial ties to the operation of the club facilities by the majority of the board of directors create circumstances other than arms length transactions and constitutes a subterfuge for doing business with the public which is inconsistent with section 501(c)(7) of the Code.

Accordingly, we hold that you are not entitled to exemption from Federal income tax as an organization described in Section 501(c)(7) of the Code. Accordingly, you are required to file Federal income tax returns on Form 1120.

[REDACTED]

You are required to file Federal Income Tax Returns.

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Appeal Procedures for Adverse Determinations, which explains in detail your rights and procedures.

Please keep this determination letter in your permanent records.

If you agree with this determination, please sign and return the enclosed Form 6018.

If we do not hear from you within 30 days from the date of this letter, this determination will become final.

Sincerely yours,

[REDACTED]
District Director